

A STUDY ON GLOBAL TAXATION PRACTICES AND ITS IMPACT ON INDIAN ECONOMY

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ABSTRACT

“Global taxation policy has changed the economy of the countries over the past several years and there are so many reasons to believe that will continue to expand for some more years. Nowadays international tax policies are being built not only to raise revenue and redistribute wealth, but also to regulate corporate behaviour. Multinationals have to be increasingly be careful of balancing business growth with effective financial and reputational risk. There are 3 most important elements in the global tax sector shaping the way that multinationals are conducting business they are as follows:

- **Base Transfer of Profit Shifting**

Organisation for economic cooperation and development aims to shift profits to low or non-profit locations, to gain this it adopts or regulates various tax strategies. This affects all companies doing business in country that have registered in OECDs multilateral convention to prevent base erosion and profit sharing.

- **State Aid**

European Union is the name given to a subsidy provided by government which talks about corporate tax practices that are being investigated for shaping competition and free market, which is going to have an effects on all the companies who are the EU member states with favourable tax rulings from tax authorities.

- **US Tax Reforms**

Large scope of tax reforms includes a shift from one country to another country tax system in which US companies will pay taxes in country where profits are earned with significant measures to prevent movements of the US tax base from which it is going to affect all entities that have effectively connected income in the US.

Keywords: OECD, BEPS, State Aid, US Tax Reforms, Tax Transparency.

Introduction

The globalisation of economic activity over past few years is widely recognised. The international activity has the impact of other countries linked with fiscal policies. Article 38(1) of international court of justice provides that the court shall apply the following in deciding on a particular matter:

- **International Conventions (General or Particular):** establishing rules expressly recognised by contesting states.
- **International Customs:** serving as evidence of general practice accepted as law.
- **General Principles:** recognised by civilised nations.

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- **Judicial Decisions and Teaching of Highly Qualified Publicities of Various Nations:** serving as subsidiary means for determination of rules of law.

Success of any law depends upon the manner in which it is interpreted and administrated. In order to interpret any law or agreement, one needs to understand the philosophy of law which has been kept at the time of passing such law in a country or at the time of forming an agreement between two countries on a particular aspect.

Global taxation is tax law imposed on both individual and corporation based on their residential and source of income. It means if a company is doing business in home country then based on residential status they need to pay tax in home country but if the business is been done in host country then based on residential status and source of income it will be taxed in host country. When we speak about source link the point arise on double taxation which means tax is collected by two or more countries. In order to avoid this double taxation treaty a company can request for a provision of double taxation avoidance agreement with the host country or in absence of such an agreement the Indian company can request for provision under section 91, providing unilateral relief in the event of double taxation. Here the other concept also joins along with the double taxation system that is economic double taxation which means the same item is taxed in two different states but in hand of different person. These two are the major elements which affects the performance of business and development of a country.

Statement of the Problem

Avoidance of double taxation and economic double taxation.

Objectives

- To understand how tax reforms is followed in different countries
- To understand the tax avoidance within tax regime
- To understand the impact of global taxation on Indian economy

Review of Literature

Global taxes can address serious global problems while at the same time raising revenue for development. A tax on carbon emissions could help slow global climate change, while a tax on currency trading could dampen dangerous instability in the foreign exchange markets. The revenue from these taxes could support major programs to reduce poverty and hunger, ensure primary schooling for all children, and reverse the spread of HIV/AIDS, malaria and other major diseases. Unreliable donations from rich countries will not fill this need, estimated by the UN to cost tens of billions per year. A global system of revenue-raising must be put in place to fund genuinely international initiatives.

Global Policy Forum

The global tax policy landscape has changed over the past several years and there are reasons to believe that it will continue to evolve for some time. Nowadays, international tax policies are being built, not only to raise revenue and redistribute wealth, but also to regulate corporate behaviour. Multinationals will need to be increasingly mindful of balancing business growth with potential financial and reputational risks.

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The views expressed in this article are those of the author alone and not the World Economic Forum.

Research Methodology

In this particular study I have used applied research methodology which helped us in understanding the facts and figures which is already given by the law. As this is applied research the source of information is completely secondary data. We have referred different journals, articles published about global taxation and practices. The study mainly explains about how the tax is imposed in different countries and also tells us the impact of global taxation in Indian economy.

Impact of Global Taxation on Indian Economy

- **Allocating Taxing Right**

Article 6-22 represents a particular income for the purpose of allocation in a country source and in the country of residence. One such exemption to general rule is contained in article 7 that is "business profit", which provides that profit of the resident of the contracting state shall be taxable only in the country of residence unless a person has permanent establishment in the contracting state. (that is source country)

- **Elimination of Double Taxation**

The major benefit of implementing global taxation in the country like India will eliminate double taxation which is going to benefit the entire organisation in expanding their business production and distribution level due to which the country can increase their profit earnings ratio.

- **Ensuring Non-Discrimination between Residents and Non- Residents**

By adopting global taxation in our country, we can ensure non-discrimination between resident and non-residential status which will actually invite foreign companies to start business or companies here which indirectly create employment opportunity, increase in FDI, etc vase versa.

- **Confidentiality**

Article 8 of agreement provides that any information received by a contracting party pursuant to this agreement must be confidential. The information will be disclosed only to persons who have authority of the contracting party involved in the assessment or allocation of the taxes covered by this agreement.

- **Exchange of Information's**

Article 26 of these conventions deals with the international exchange of information between the tax authorities of contracting states. Since international law does not allow a state to conduct a tax investigation in another state without its consent, this article empowers both contracting states to exchange information required under tax treaties and the domestic tax laws.

Findings

- Adopting global taxation helps in overall development of country which facilitates the business to make accurate decision.
- It will help us understand the tax system of other countries.
- Helps in improving best business strategies and learn how to avoid tax payment and earn more profit.

Conclusion

- Implicating global taxation will bring tax transparency
- Helps in taking or making business decision
- Development of country
- Avoiding double taxation and economic double taxation.

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